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AGENDA ITEM 4a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Responsible Contractor Annual Report
(July 1, 2006 – June 30, 2007)
- II. PROGRAM:** Real Estate
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

In accordance with the approved CalPERS Responsible Contractor Program Policy (RCP), this agenda item reports compliance for fiscal year 2006-2007 to the Investment Committee. Attached is the consolidated Responsible Contractor Annual Report for all Real Estate partners and the Housing Program partners (Exhibits I-III).

Also included in this agenda item is information on complaints, notification, and additional documentation for the certification process.

The compliance information presented in this agenda item is limited to contracts and payments under the direct control of CalPERS' Real Estate partners and is based on annual reports submitted by CalPERS' Real Estate partners.

Total Real Estate

For the fiscal year 2006-2007, the Real Estate equity program achieved 96.1% compliance with CalPERS Responsible Contractor program goals and requirements. The Real Estate program advisors awarded in excess of \$3.5 billion in RCP contracts for the reporting period. This is an improvement over previous years. Staff remains dedicated to promoting increased compliance in the Responsible Contractor Program. Please see Exhibit I for since inception performance of the program.

Real Estate Equity Partners/Advisors

The domestic Core and Non-Core equity Real Estate advisors and partners, to whom the RCP applies, excluding the Housing Partners, utilized responsible contractors for 100.0% and 96.5% respectively. The successful compliance rate is calculated using all qualified operating expenses and qualified tenant improvements and other capital expenditures. This represents a combined compliance of 97.4%, a 2.8% increase over the prior reporting period of 94.6%. Please see Exhibit II for partnership level reporting of compliance with the program.

Housing Program Partners

For the fiscal year 2006-2007, Housing Program Partners awarded 95.6% of all qualified capital expenditures to responsible contractors which is a .8% increase in compliance compared to the prior reporting period of 94.8%. Please see Exhibit III for housing program partnership level reporting.

Responsible Contractor Complaints

For the fiscal year 2006-2007, CalPERS staff logged a total of two complaints. All complaints logged for this reporting period have been investigated and resolved. The current complaint log and resolutions are detailed in Exhibit IV.

Responsible Contractor Certifications

For the fiscal year 2006-2007, all of CalPERS' partners have certified in writing that to the best of their knowledge, they have complied with the Responsible Contractor Policy and more specifically with the roles and responsibilities stated within the Policy.

Notification

CalPERS, its Real Estate partners and other stakeholders have been working together in the spirit of cooperation to promote consistency and as needed to improve the bidding opportunity notification process. Staff has encouraged the use of websites and e-mail communication as the preferred notification methods. Of Real Estate's twenty-eight participating RCP partners, nineteen have launched websites and two additional partners have websites in process. Please see Exhibit V for partnership responsible contractor notification methods. Real Estate staff recognizes the importance of timely notification to ensure the inclusion of Responsible Contractors in the bidding process, and believes that the use of e-mail notification and websites will be an important tool to promote the goals and objectives of the RCP.

Documentation for the Certification of Responsible Contractor Status

As reported to the Investment Committee on March 12, 2007, staff has been reviewing changes to the Certification of Responsible Contractor Status Form ("Certification Form"). The Certification Form requires bidders to check one of three boxes: 1) Meets all Responsible Contractor requirements; 2) Meets none of the Responsible Contractor requirements; and 3) Meets certain of the Responsible Contractor requirements. Staff is proposing a supplemental worksheet be added to the status form. The proposed worksheet asks bidders to provide more detailed information on their wages and benefits. The additional information helps bidders assess their responsible contractor status and assists our partners in the final determination of responsible contractor program compliance.

Staff requested that our partners "field test" the proposed worksheet to ensure that it will be a helpful tool in evaluating potential bidders and acceptable to the market-place. Based on the positive feedback, we intend to bring the proposed Supplemental Responsible Contractor worksheet to the Investment Policy Subcommittee for approval in the near future. Please see Exhibit VI.

Conclusion

Staff recognizes the importance of maintaining a healthy dialogue with all parties to the RCP and in particular, acknowledges the value of the input staff receives from labor representatives.

Staff is committed to ensuring that the Investment Committee's intent regarding the RCP is met, to encourage fair wages and benefits on CalPERS' projects subject to fiduciary principles, and is implementing the Policy to the best of our ability.

V. STRATEGIC PLAN

Goal IX to achieve long-term, sustainable, risk-adjusted returns by thinking creatively with respect to new investment opportunities and ensuring the sustainability of the portfolio returns.

VI. RESULTS/COSTS

Since the Program's inception, a total of \$16.7 billion out of \$21.0 billion in qualifying expenditures have been awarded to Responsible Contractors as defined by the Policy adopted in June 1994. On-going administrative costs are not known, as the partners do not report separately to CalPERS for costs associated with the administration and compliance of the program.

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